

**AMB Financial Corp.
8230 Hohman Avenue
Munster, Indiana 46321
(219) 836-5870**

**Financial Report For The Three
and Nine Months Ended September 30, 2009**

Note: This report is intended to be read in conjunction with our Annual Report for the year ended December 31, 2008. This report is dated September 30, 2009 and should not be read to cover any subsequent periods. We specifically disclaim any obligation to update this report even if the contents thereof should become misleading.

This report has not been prepared in accordance with Securities and Exchange Commission rules applicable to public companies and is not intended to comply with such rules.

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**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Financial Condition

	September 30, <u>2009</u> unaudited	December 31, <u>2008</u>
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 3,072,927	\$ 2,364,292
Interest-bearing deposits	14,955,564	1,435,770
Total cash and cash equivalents	18,028,491	3,800,062
Investment securities, available for sale, at fair value	-	512,267
Mortgage backed securities, available for sale, at fair value	5,634,599	3,609,479
Loans receivable (net of allowance for loan losses: \$2,434,099 at September 30, 2009 and \$855,330 at December 31, 2008)	140,436,047	150,833,889
Real estate owned and other repossessed assets	2,007,725	1,322,324
Investment in limited partnership	649,657	676,029
Stock in Federal Home Loan Bank of Indianapolis	1,965,100	1,965,100
Accrued interest receivable	618,570	719,692
Office properties and equipment- net	8,661,231	8,616,368
Real estate held for development and sale	361,062	1,197,746
Bank owned life insurance	3,972,454	3,870,882
Prepaid expenses and other assets	5,431,664	2,968,571
	\$ 187,766,600	\$ 180,092,409
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits	\$ 142,247,689	\$ 129,212,620
Borrowed money	23,071,798	30,883,136
Guaranteed preferred beneficial interest in the Company's subordinated debentures	3,000,000	3,000,000
Notes payable	-	72,186
Advance payments by borrowers for taxes and insurance	344,771	603,501
Other liabilities	4,240,761	3,370,531
Total liabilities	\$ 172,905,019	\$ 167,141,974
<u>Stockholders' Equity</u>		
Preferred stock, \$.01 par value; authorized 100,000 shares, 3,858 shares issued and outstanding at September 30, 2009 and none outstanding at December 31, 2008	\$ 3,698,536	\$ -
Common Stock, \$.01 par value; authorized 1,900,000 shares; 1,683,641 shares issued and 981,638 shares outstanding at September 30, 2009 and December 31, 2008	16,837	16,837
Additional paid- in capital	11,425,072	11,532,449
Retained earnings, substantially restricted	7,406,227	9,107,725
Accumulated other comprehensive income, net of tax	75,752	54,267
Treasury stock, at cost (702,003 shares at September 30, 2009 and December 31, 2008)	(7,760,843)	(7,760,843)
Total stockholders' equity	\$ 14,861,581	\$ 12,950,435
Total liabilities and stockholders' equity	\$ 187,766,600	\$ 180,092,409

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

**Consolidated Statements of Earnings
(Unaudited)**

	Three Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2008	Nine Months Ended Sept. 30, 2009	Nine Months Ended Sept. 30, 2008
Interest income				
Loans	\$ 2,006,396	\$ 2,265,226	\$ 6,162,579	\$ 6,983,583
Mortgage-backed securities	50,901	22,967	136,252	49,114
Investment securities	6,417	9,533	20,167	50,490
Interest-bearing deposits	1,800	11,490	4,079	35,929
Dividends on FHLB stock	12,692	29,614	33,393	74,222
Total interest income	<u>\$ 2,078,206</u>	<u>\$ 2,338,830</u>	<u>\$ 6,356,470</u>	<u>\$ 7,193,338</u>
Interest expense				
Deposits	\$ 726,397	\$ 914,198	\$ 2,299,987	\$ 2,886,757
Borrowings	355,896	436,051	1,114,963	1,432,987
Total interest expense	<u>\$ 1,082,293</u>	<u>\$ 1,350,249</u>	<u>\$ 3,414,950</u>	<u>\$ 4,319,744</u>
Net interest income	\$ 995,913	\$ 988,581	\$ 2,941,520	\$ 2,873,594
Provision for loan losses	1,635,000	345,000	2,380,000	465,000
Net interest (loss) income after provision for loan losses	<u>\$ (639,087)</u>	<u>\$ 643,581</u>	<u>\$ 561,520</u>	<u>\$ 2,408,594</u>
Non-interest income:				
Loan fees and service charges	\$ 38,171	\$ 24,681	\$ 139,416	\$ 102,438
Deposit related fees	118,654	133,489	362,974	382,114
Other fee income	63,442	113,523	186,869	337,235
Rental Income	23,370	18,204	68,392	89,235
Gain on sale of available for sale securities	-	14,937	-	14,937
Gain on sale of trading securities	-	9,804	-	9,236
Unrealized gain (loss) on trading securities	-	1,759	-	(35,735)
Gain on sale of loans	-	-	84,094	-
Loss from investment in limited partnership	(12,162)	(11,250)	(26,372)	(33,750)
Loss from write down and sales of real estate held for development	(512)	-	(25,974)	(318,054)
Loss on write down and sale of real estate owned and other repossessed assets	(337,371)	-	(403,192)	(87,519)
Gain on sale of other assets	-	-	-	23,841
Increase in cash surrender value of life insurance	35,645	32,995	101,572	96,930
Other income	5,846	6,669	24,323	27,486
Total non-interest income	<u>\$ (64,917)</u>	<u>\$ 344,811</u>	<u>\$ 512,102</u>	<u>\$ 608,394</u>
Non-interest expense:				
Staffing costs	\$ 573,190	\$ 519,563	\$ 1,652,865	\$ 1,624,378
Advertising	30,116	45,080	116,973	123,438
Occupancy and equipment expense	175,022	114,476	525,809	335,243
Data processing	113,360	103,992	360,136	336,925
Professional fees	71,826	104,093	330,584	312,821
Federal deposit insurance premiums	65,578	25,890	250,977	77,838
Other operating expenses	232,081	224,584	679,787	601,836
Total non-interest expense	<u>\$ 1,261,173</u>	<u>\$ 1,137,678</u>	<u>\$ 3,917,131</u>	<u>\$ 3,412,479</u>
Loss before income tax benefit	\$ (1,965,177)	\$ (149,286)	\$ (2,843,509)	\$ (395,491)
Income tax benefit	(792,525)	(72,202)	(1,166,547)	(195,048)
Net loss	<u>\$ (1,172,652)</u>	<u>\$ (77,084)</u>	<u>\$ (1,676,962)</u>	<u>\$ (200,443)</u>
Loss per share- basic	\$ (1.20)	\$ (0.08)	\$ (1.71)	\$ (0.20)
Loss per share- diluted	\$ (1.20)	\$ (0.08)	\$ (1.71)	\$ (0.20)

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)**

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2008	\$ 16,837	\$ -	\$ 11,532,449	\$ 9,107,725	\$ 54,267	\$ (7,760,843)	\$ 12,950,435
Comprehensive loss:							
Net loss				(1,676,962)			(1,676,962)
Other comprehensive loss, net of income taxes:							
Unrealized holding gain during the period					21,485		21,485
Total comprehensive loss							(1,655,477)
Issuance of preferred stock		3,465,530					3,465,530
Issuance of preferred stock warrants		208,470					208,470
Other		24,536		(24,536)			-
Stock option compensation			1,097				1,097
Preferred stock dividends			(108,474)				(108,474)
Balance at September 30, 2009	\$ 16,837	\$ 3,698,536	\$ 11,425,072	\$ 7,406,227	\$ 75,752	\$ (7,760,843)	\$ 14,861,581

See accompanying notes to consolidated financial statements.

**AMB FINANCIAL CORP.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

	Nine Months Ended Sept. 30,	
	2009	2008
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (1,676,962)	\$ (200,443)
Adjustments to reconcile net loss to net cash:		
Depreciation	258,961	140,426
Stock option compensation	1,097	1,316
Amortization of premiums and accretion of discounts	(64,766)	15,695
Gain on sale of available for sale securities	-	(14,937)
Gain on sale of other assets	-	(23,841)
Proceeds from sale of loans held for sale	6,180,594	-
Origination of loans held for sale	(6,096,500)	-
Gain on sale of loans	(84,094)	-
Loss on write down and sale of real estate owned	403,192	87,519
Provision for loan losses	2,380,000	465,000
Loss from limited partnership	26,372	33,750
Increase in cash surrender value of life insurance	(101,572)	(96,930)
Loss from write down and sales of real estate held for development and sale	9,268	318,054
Gain on sale of trading securities	-	(9,236)
Unrealized loss on trading securities	-	35,735
Proceeds from sale of trading securities	-	280,067
Increase (decrease) in deferred income on loans	10,525	(28,303)
(Increase) decrease in prepaid and deferred income taxes	(1,034,280)	54,314
Decrease in accrued interest receivable	101,122	8,011
Decrease in accrued interest payable	(12,341)	(1,506)
Increase in purchased accounts receivable	(1,479,675)	(256,986)
Increase in deferred compensation	16,209	14,252
Other, net	902,901	(309,809)
	(259,949)	512,148
Net cash provided (for) by operating activities		
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	-	214,377
Proceeds from maturity and early redemption of investment securities	500,000.00	1,000,000
Purchase of investment securities	-	(4,917)
Purchase of mortgage-backed securities	(2,822,743)	(1,968,400)
Proceeds from repayments of mortgage-backed	910,463	344,099
Purchase of loans	(1,636,819)	(2,750,948)
Loan disbursements	(27,711,189)	(30,457,500)
Loan repayments	35,796,626	32,644,112
Proceeds from sale of real estate owned	470,106	342,197
Purchase of Federal Home Loan Bank stock	-	(214,200)
Proceeds from sale of real estate held for development	860,943	-
Purchase of real estate held for development	(33,527)	(35,500)
Property and equipment expenditures, net	(303,824)	(2,282,620)
	6,030,036	(3,169,300)
Net cash provided by (for) investing activities		
Cash flows from financing activities:		
Net increase in deposits	13,035,069	5,291,968
Proceeds from borrowed money	2,000,000	28,300,000
Repayment of borrowed money	(9,811,338)	(30,379,217)
Repayment of note payable	(72,186)	(134,344)
(Decrease) increase in advance payments by borrowers for taxes and insurance	(258,729)	1,471,840
Proceeds from issuance of preferred stock	3,674,000	-
Dividends paid on common stock	-	(265,497)
Dividends paid on preferred stock	(108,474)	-
	8,458,342	4,284,750
Net cash provided by financing activities		
Net change in cash and cash equivalents	14,228,429	1,627,598
Cash and cash equivalents at beginning of period	3,800,062	2,935,008
Cash and cash equivalents at end of period	\$ 18,028,491	\$ 4,562,606
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,431,859	\$ 4,321,450
Income taxes	-	-
Non-cash investing activities:		
Transfer of loans to real estate owned	1,558,699	821,906

See accompanying notes to consolidated financial statements.

**Earnings (Loss) Per Share
(Unaudited)**

	Three Months Ended <u>September 30, 2009</u>	Three Months Ended <u>September 30, 2008</u>
Net loss	\$ <u>(1,172,652)</u>	<u>(77,084)</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic loss per share	\$ <u>(1.20)</u>	<u>(0.08)</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>0</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted loss per share	\$ <u>(1.20)</u>	<u>(0.08)</u>
	Nine Months Ended <u>September 30, 2009</u>	Nine Months Ended <u>September 30, 2008</u>
Net loss	\$ <u>(1,676,962)</u>	<u>(200,443)</u>
Total weighted average common shares outstanding for basic computation	<u>981,638</u>	<u>981,638</u>
Basic loss per share	\$ <u>(1.71)</u>	<u>(0.20)</u>
Total weighted average common shares outstanding for basic computation	981,638	981,638
Common stock equivalents due to dilutive effect of stock options	<u>0</u>	<u>0</u>
Total weighted average common shares and equivalents outstanding for diluted computation	<u>981,638</u>	<u>981,638</u>
Diluted loss per share	\$ <u>(1.71)</u>	<u>(0.20)</u>

**AMB Financial Corp.
And Subsidiaries**

Notes to Consolidated Financial Statements

Statement of Information Furnished.

The accompanying unaudited consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America and in the opinion of management contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly, and not make misleading, the financial position as of September 30, 2009, the results of operations for the three and nine month periods ended September 30, 2009 and 2008 and cash flows for the nine month periods ended September 30, 2009 and 2008. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The attached consolidated statements are those of AMB Financial Corp. (the "Company") and its consolidated subsidiaries American Savings, FSB (the "Bank"), the Bank's wholly owned subsidiary NIFCO, Inc., and the wholly owned subsidiary of NIFCO, Inc., Ridge Management, Inc.

Earnings (Loss) Per Share.

Earnings (Loss) per share for the three and nine month periods ended September 30, 2009 and 2008 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock, as well as common stock equivalents outstanding. Stock options are regarded as common stock equivalents and are considered in diluted earnings per share calculations. Common stock equivalents are computed using the treasury stock method. For such periods, there was no dilutive effect of common stock equivalents.

Forward-Looking Statements.

The Company and the Bank may from time to time make written or oral "forward-looking statements." These forward-looking statements may be included in this Financial Report, which are made in good faith by us. These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in the forward-looking statements:

- the current crisis in the United States economy in general and in our local economy (including unemployment) in which we conduct operations;
- the current crisis in the securities markets;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board and the United States Treasury ("UST");

- our ability to manage or reduce our non performing assets;
- our ability to repay our holding company debt, including our \$3 million of trust preferred stock and \$2 million of holding company notes, when due;
- the impact of new laws and regulations resulting from the current economic crisis on financial institutions, the lending market and our regulatory agencies;
- the impact of current and future restrictions and requirements on institutions like us which have accepted funds from the UST under its Capital Purchase Program (“CPP”);
- future deposit premium levels which are likely to rise as a result of the banking crisis;
- the impact of the possible receivership or nationalization of other banking institutions;
- future loan underwriting and consumer protection requirements;
- inflation, interest rate, market and monetary fluctuations;
- the steep decline in loan demand and real estate values within our local market;
- our ability to redeem our \$3.7 million of preferred stock and \$184,000 of warrant preferred stock issued to the UST under its CPP before the dividend on the preferred stock increases to 9% on January 30, 2014;
- the future financial strength, dividend level and activities of the FHLB of Indianapolis in which we own stock and from which we borrow money;
- the impact of any new government foreclosure relief and loan modification programs;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality thereof compared to competitors’ products and services;
- the willingness of users to substitute our products and services for products and services of our competitors;
- our ability to reinvest our cash flows in today’s very low interest rate environment;
- our success in gaining regulatory approval of our products and services, when required;
- the impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- competition from other financial service providers in the Company’s market area;
- the success of our new executives in managing our business operations;
- the success of our loan restructuring and work out arrangements;
- our ability to accurately estimate the value of our assets and the appropriate level of our allowance for loan losses;
- our ability to lease vacant space in our branch facilities;
- our ability to support the additional overhead expense resulting from our recent branch expansion; and
- future changes in consumer spending and saving habits.

The list of important factors stated above is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of AMB Financial or American Savings.

Capital Purchase Program. On January 30, 2009, the Company sold and the United States Department of the Treasury (the “UST”) purchased (a) 3,674 shares of Company Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share (the “Series A Preferred Shares”), and (b) a warrant (the “Warrant”) to purchase up to 184 shares of Company Fixed

Rate Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of \$1,000 per share (the “Series B Preferred Shares”).

The purchase price for the Series A Preferred Shares was \$3,674,000 and the Warrant was exercised in a cashless transaction for nominal consideration. At closing, the Company issued to the UST 3,674 Series A Preferred Shares and 184 Series B Preferred Shares. Cumulative dividends on the Series A Preferred Shares will accrue on the liquidation preference at an annual rate of 5% per year for the first five years and at an annual rate of 9% thereafter. Cumulative dividends on the Series B Preferred Shares will accrue on the liquidation preference at an annual rate of 9%.

The CPP imposes substantial restrictions on the payment of dividends on the Company’s common stock and on the Company’s ability to repurchase its common stock without UST approval. The Preferred Shares generally may not be redeemed for at least three years. As a result, our ability to pay dividends, and/or make stock repurchases will be subject to significant restrictions for at least three years. The CPP subjects the Company to executive compensation limitations included in the Emergency Economic Stabilization Act of 2008.

While the Bank met the regulatory requirements for being well capitalized without participation in the CPP, the Company firmly believes that, absent knowing the extent and depth of the current economic recession, it was prudent to raise additional capital through the CPP.

A summary of the CPP can be found on the UST’s website at <http://ustreas.gov/initiatives/eesa/>.

FDIC Transaction Account Guarantee Program. The Bank is participating in the Transaction Account Guarantee Program, which includes additional FDIC insurance coverage for its customers. Customers with noninterest-bearing deposit accounts, Lawyer’s Trust Accounts, and NOW accounts paying interest at a rate of less than 0.50 percent will be fully insured by the FDIC regardless of the account balance, through June 30, 2010. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC’s general deposit insurance rules, which was recently increased from \$100,000 to \$250,000 per depositor, through December 31, 2013.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition. The total assets of the Company were \$187.8 million at September 30, 2009, an increase of \$7.7 million, or 4.3%, from \$180.1 million at December 31, 2008. The increase in assets was primarily the result of increases in cash and cash equivalents offset by a decline in loans receivable. Asset growth was funded by a \$13.0 million increase in deposits and proceeds totaling \$3.7 million related to the sale of preferred stock. Partially offsetting these inflows was debt repayment totaling \$7.8 million.

Cash and cash equivalents totaled \$18.0 million at September 30, 2009, as compared to \$3.8 million at December 31, 2008, representing an increase of \$14.2 million. The increase was primarily the result of the aforementioned increase in total assets. Investment securities, available for sale, were repaid as the remaining security, with a par value of \$500,000, was called prior to its final maturity.

Mortgage-backed securities increased \$2.0 million to \$5.6 million at September 30, 2009, as compared

to \$3.6 million at December 31, 2008. The increase was the result of purchases totaling \$2.8 million, offset in part by repayments totaling \$910,000. Purchases consisted of Fannie Mae and Freddie Mac, fixed rate, pass through securities. At September 30, 2009, the Company had an unrealized gain on available for sale mortgage-backed securities of \$126,000 compared to a \$78,000 unrealized gain at December 31, 2008.

Loans receivable decreased \$10.4 million, or 6.9%, to \$140.4 million at September 30, 2009, from \$150.8 million at December 31, 2008. Loan originations and purchases totaled \$35.4 million during the nine month period ended September 30, 2009, as compared to \$33.2 million during the prior year period. Included in the 2009 total were \$6.1 million of loans originated for sale and subsequently sold into the secondary market. These historically low fixed rate mortgage loans were sold in an effort to reduce interest rate risk. Offsetting the originations and purchases were amortization, prepayments, and sales of loans totaling \$42.0 million and \$32.6 million for the nine month periods ended September 30, 2009 and 2008, respectively.

The determination of the allowance for loan losses involves material estimates that are susceptible to significant change in the near term. The allowance for loan losses is maintained at a level adequate to provide for losses through charges to operating expense. The allowance is based upon past loss experience and other factors, which, in management's judgment, deserve current recognition in estimating losses. Such other factors considered by management include growth and composition of the loan portfolio, the relationship of the allowance for losses to outstanding loans and adverse economic conditions. To determine the appropriate level for the allowance for loan losses, management applies historical loss percentages to performing residential real estate, nonresidential real estate, consumer, and commercial business loan balances. In addition, nonperforming loans are evaluated for current collateral deficiencies. Management establishes reserves within the allowance for loan losses for loans that have collateral deficiencies. By applying the historical loss factors to the current loan balances and identifying the required collateral deficiency reserves for the period, management records loan loss provisions, which establishes the appropriate level for the allowance for loan losses.

The allowance for loan losses totaled \$2.4 million at September 30, 2009, an increase of \$1.6 million from the \$855,000 allowance at December 31, 2008. The Bank's allowance for loan losses was 1.70% of total loans and 0.56% of total loans at September 30, 2009 and December 31, 2008, respectively. Impacted by the current economic crisis, high unemployment in our market area is causing weakness in loan quality, creating additional pressure on commercial loans, consumer loans, and credit card portfolios and also impacting the performance of residential mortgage loans. Collateral values also have continued to decline from their pre 2004 –2007 historical levels.

Management believes that the allowance for loan losses is adequate at September 30, 2009. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in information and economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Real estate owned and other repossessed assets increased \$685,000 to \$2.0 million at September 30, 2009 as compared to \$1.3 million at December 31, 2008. Real estate owned includes: seven single family residential parcels totaling \$737,000, of which two totaling \$83,000 are located outside the

Bank's immediate lending area; three multi family parcels totaling \$473,000; one single family residential construction parcel totaling \$215,000; vacant land parcels located near Indianapolis, Indiana totaling \$207,000; one nonresidential parcel totaling \$203,000; and a five-unit residential/commercial parcel totaling \$173,000. The real estate owned properties are valued at the lower of cost or management's estimate of net realizable value.

The Company's investment in a limited partnership decreased \$26,000 to \$650,000 at September 30, 2009, as compared to \$676,000 at December 31, 2008. The decline represents the Company's share of the operating losses generated by the partnership, which manages an investment in a low income housing apartment development.

Stock in the FHLB of Indianapolis remained unchanged totaling \$2.0 million at September 30, 2009. The Company is required to hold a specified amount of stock in the FHLB of Indianapolis in order to obtain advances. The amount of FHLB stock required to be held by the Company is determined by the greater of a specified percentage of either the amount of mortgage related assets or the amount of borrowed funds from the FHLB of Indianapolis.

Office properties and equipment increased to \$8.7 million at September 30, 2009, as compared to \$8.6 million at December 31, 2008. Current period capital expenditures of \$300,000 primarily relate to additional construction build out at our new three-story office building located in Schererville, Indiana, which was opened to the public in October 2008. While the Bank utilizes a portion of the building as a full service branch office, the remainder of the building is being actively marketed for lease.

The Company had previously acquired, in conjunction with an agreement with a local builder, vacant lots on which to construct single-family residences in St. John and Munster, Indiana. At September 30, 2009, the Company's \$361,000 investment in real estate development projects consisted of four vacant lots. Due to the slowdown in the real estate market, the Company has decided not to build on these vacant lots. During the nine month period ended September 30, 2009, the Company sold the remaining two single family residences which had been constructed during prior periods, realizing proceeds of \$861,000 while recognizing a loss of \$9,000. In view of the current weak real estate market, there can be no assurance whether, when, and at what price the Company will be able to sell the remaining vacant lots.

Bank owned life insurance increased \$102,000 to \$4.0 million at September 30, 2009 as compared to December 31, 2008. The change represents the increase in the cash surrender value of the life insurance policies purchased in connection with deferred compensation plans utilized by directors and officers of the Company.

Prepaid expenses and other assets increased \$2.5 million to \$5.4 million at September 30, 2009, as compared to December 31, 2008. The increase was due in part to a \$1.5 million increase in the Company's purchased accounts receivable program, which totaled \$3.0 million at September 30, 2009. The program involves the purchase and subsequent management of the accounts receivables of credit-worthy business customers. Also impacting this increase was a \$1.0 million increase in current and deferred income tax receivables as a result of the net loss reported by the Company.

Deposits increased \$13.0 million, or 10.1%, to \$142.2 million at September 30, 2009, from \$129.2 million at December 31, 2008. The increase in deposits was due to an increase in checking and money

market deposits totaling \$5.2 million, an increase in passbook savings deposits of \$436,000, and an increase in certificates of deposit totaling \$7.4 million. At September 30, 2009, the Bank's non-certificate accounts (passbook, checking and money market accounts) comprised \$52.5 million, or 36.9% of deposits, compared to \$46.9 million, or 36.3% of deposits at December 31, 2008. Deposits at the branch office opened in October 2008 totaled \$5.6 million at September 30, 2009.

Borrowed money, which consisted primarily of FHLB of Indianapolis advances, decreased by \$7.8 million, or 25.3%, to \$23.1 million at September 30, 2009, as compared to \$30.9 million at December 31, 2008. The Company was able to reduce borrowings due in part to the aforementioned increase in deposit balances. Borrowings from the FHLB of Indianapolis totaled \$21.1 million at September 30, 2009, compared with \$28.7 million at December 31, 2008. At September 30, 2009, the weighted average rate on the FHLB of Indianapolis borrowings increased to 4.50%, compared to a 4.26% at December 31, 2008 due to the repayment of short-term borrowings having lower interest rates. The weighted term to maturity of the Company's FHLB of Indianapolis borrowings at September 30, 2009 was 1.7 years.

Total stockholders' equity of the Company increased by \$1.9 million to \$14.9 million, or 7.91% of total assets, at September 30, 2009, compared to \$13.0 million, or 7.19% of total assets at December 31, 2008. The increase in stockholders' equity was the result of the aforementioned proceeds totaling \$3.7 million regarding the preferred stock sale to the United States Treasury as well as an unrealized market value gain on available for sale securities during the period, net of tax, in the amount of \$21,000, offset by a \$1.7 million net loss for the nine months ended September 30, 2009 and dividends paid to the United States Treasury totaling \$108,000. The number of common shares outstanding at September 30, 2009 was 981,638 and the book value per common share outstanding was \$15.14. The Bank's tangible, core and risk-based capital percentages of 8.33%, 8.33% and 13.38%, respectively, at September 30, 2009 exceeded all regulatory requirements and categorize the Bank as well capitalized under OTS guidelines.

It is not clear how serious an effect the current slowdown of the economy will have on the Company's loan volume, credit quality and deposit flows. However, management believes that the Company's construction loans, non-owner occupied loans, purchased loans, and consumer loans, as well as the real estate it owns, may be particularly sensitive to adverse economic conditions.

Results for the Quarter Ended September 30, 2009 Compared to the Quarter Ended September 30, 2008

General – The Company recorded a net loss totaling \$1.2 million for the quarter ended September 30, 2009, as compared to a net loss totaling \$77,084 for the quarter ended September 30, 2008. The loss per share totaled (\$1.20) for the quarter ended September 30, 2009, as compared to a loss of (\$0.08) per share for the quarter ended September 30, 2008. The current period loss is attributable to a \$1.3 million increase in the provision for loan losses, a \$410,000 decrease in non-interest income, and a \$123,000 increase in non-interest expenses offset in part by an increased tax benefit of \$720,000.

Interest income - Total interest income decreased by \$261,000, or 11.1%, to \$2.1 million for the quarter ended September 30, 2009, as compared with the prior year's period. This decrease was the result of a 100 basis point decline in the average yield on interest-earning assets to 5.03% for the quarter ended September 30, 2009, as compared to 6.03% for the quarter ended September 30, 2008, offset in part by a \$10.0 million increase in the average balance of interest-earning assets to \$165.1 million for the quarter

ended September 30, 2009, as compared to \$155.1 million for the quarter ended September 30, 2008.

Interest income on loans receivable decreased \$259,000, or 11.4%, to \$2.0 million for the three months ended September 30, 2009, as compared to the prior year's three month period. The average balance of loans receivable for the three months ended September 30, 2009 was \$143.0 million with an average yield of 5.61% compared to an average balance of \$148.0 million with an average yield of 6.12% for the same quarter in 2008. The decrease in the average yield on loans receivable reflects both the impact of lower yielding new originations and purchases in the current rate environment as well as lower interest rates on adjustable rate loans as the Federal Reserve reduced the federal funds target rate (which is indexed to the prime rate) by 425 basis points since January 2008, of which, 175 basis points of the reduction occurred since June 2008. Also, the impact of increasing levels of non performing loans, whereby no interest is earned, has negatively impacted the average yield. The decrease in the average balance was due to lower volumes of new originations and purchases held for the portfolio offset by higher principal repayments.

Interest income on mortgage-backed securities increased \$28,000, to \$51,000 for the quarter ended September 30, 2009. The average balance of mortgage-backed securities for the three months ended September 30, 2009 was \$5.2 million with an average yield of 3.94% compared to an average balance of \$1.9 million with an average yield of 4.80% for the same quarter in 2008. The average balance increased due to purchases of \$4.0 million between the periods. Interest income on investment securities decreased \$3,000, to \$6,000 for the quarter ended September 30, 2009, as compared to the prior year. The average balance of investment securities for the three months September 30, 2009 was \$470,000 with an average yield of 5.46% compared to an average balance of \$684,000 with an average yield of 5.58% for the same quarter in 2008. The decline in the average balance of investment securities outstanding was due to maturities and calls within the portfolio. Interest income on interest bearing deposits decreased by \$10,000, to \$2,000 for the quarter ended September 30, 2009, as compared to the prior year. The decrease in interest income was the result of a historical decline in overnight rates resulting in an average yield of 0.05% for the quarter ended September 30, 2009 compared to 1.82% for the quarter ended September 30, 2008, offset in part by a \$12.0 million increase in the average balance outstanding to \$14.5 million for the 2009 quarter compared to \$2.5 million for the same quarter in 2008. The increase in the average balance was due in part to the aforementioned decrease in net loans receivable as well as the proceeds received from the preferred stock issuance. Dividend income on FHLB of Indianapolis stock decreased by \$17,000 to \$13,000 for the quarter ended September 30, 2009, as compared to the prior year's period. The decrease in dividend income was the result of a decrease in the average yield to 2.56% for the quarter ended September 30, 2009, from 5.98% for the quarter ended September 30, 2008 as the average balance of FHLB of Indianapolis stock remained \$2.0 million for both three month periods.

Interest Expense - Total interest expense decreased by \$268,000, or 19.8%, to \$1.1 million for the quarter ended September 30, 2009, as compared to the prior year's period. The decrease in interest expense was due to a lower cost of funds, which enabled management to lower the rate on maturing certificates of deposit and still remain competitive. Average interest bearing liabilities increased to \$167.5 million for the quarter ended September 30, 2009 compared to \$160.3 million for the comparable 2008 quarter while the average cost of interest bearing liabilities decreased to 2.56% from 3.34% for the comparable periods. The increase in the average balance of interest-bearing liabilities was due to an increase in the average balance of deposits outstanding of \$14.1 million, offset by a \$6.9 million reduction in the average balance of borrowings outstanding.

Interest expense on deposits decreased by \$188,000, or 20.5%, to \$726,000 for the quarter ended September 30, 2009, as compared with the prior year's quarter, as a result of an 82 basis point decrease in the average cost of deposits to 2.07% for the quarter ended September 30, 2009 from 2.89% in the comparable period offset in part by a \$14.1 million increase in the average balance of deposits outstanding to \$139.5 million from \$125.4 million for the comparable periods. The decrease in the average cost of deposits was primarily impacted by an 86 basis point decrease on certificates of deposits to an average rate of 2.88% during the 2009 quarter, as compared to an average rate of 3.74% for three month period ended September 30, 2008.

Interest expense on borrowings decreased by \$80,000 to \$356,000, for the quarter ended September 30, 2009, as compared with the prior year's quarter. This decrease was the result of an \$6.9 million decrease in the average balance of borrowings to \$28.0 million for the quarter ended September 30, 2009, from \$34.9 million for the quarter ended September 30, 2008, offset in part by a 9 basis point increase in the average cost of borrowed funds to 5.05% for the quarter ended September 30, 2009 from 4.96% for the comparable quarter. Interest expense on FHLB of Indianapolis advances decreased by \$68,000 to \$266,000 for the quarter ended September 30, 2009, as compared with the prior year's period as a result of a \$6.3 million decrease in the average balance outstanding to \$23.0 million for the quarter ended September 30, 2009, from \$29.3 million for the quarter ended September 30, 2008, offset in part by an increase of 7 basis points in the average cost of these advances to 4.60% compared to 4.53% for the prior year's quarter. Interest expense on other borrowings decreased by \$12,000, totaling \$90,000 for the quarter ended September 30, 2009, as compared to the prior year's quarter.

Net Interest Income - As a result of the changes in interest income and interest expense, net interest income increased \$7,000, or 0.7%, to \$996,000 for the quarter ended September 30, 2009, as compared to \$989,000 in the prior year's quarter. The net interest rate spread decreased to 2.47% during the current quarter, as compared to 2.69% for the quarter ended September 30, 2008. The net interest margin decreased to 2.41% in the current quarter, as compared to 2.55% a year ago. Average net earning assets increased between the periods by \$2.9 million.

Provision for Loan Losses - The Company recorded a provision for loan losses of \$1.6 million during the current quarter, as compared to \$345,000 during the prior year's quarter. The increase was due to loan charge-offs during the current quarter as well as growth in nonperforming loans as a primary result of the continued deteriorating economic conditions. During the current quarter, the Bank incurred charge-offs totaling \$795,000 relating to a \$339,000 commercial loan, \$307,000 in four single family residential loans, \$147,000 in two multi family loans, and \$2,000 in two credit card receivables. These charge-offs were offset by a recovery totaling \$1,000 relating to a commercial loan. The Company's quarterly loan loss provision is determined as a result of management's periodic assessment of the allowance for losses on loans. Based upon management's assessment, appropriate provisions are made to maintain the adequacy of the allowance to cover probable losses in the loan portfolio. The amount of the allowance is based on estimates and ultimate losses may vary from such estimates.

Non-Interest Income - Non-interest income was a loss of \$65,000 for the quarter ended September 30, 2009 compared to income of \$345,000 in the prior year's quarter due to a \$337,000 loss from sales and additional write-downs of real estate owned based upon declines in the market value of several of these properties. The current quarter's decline was also impacted by a \$50,000 decrease in other fee income

primarily related to the Company's accounts receivable program, which experienced a reduction in average volume during the current quarter, a \$15,000 decline in deposit related service fees, and a \$15,000 decline in gain on the sale of available for sale securities. Partially offsetting these decreases was a \$13,000 increase in loan fee income.

Non-Interest Expense - Non-interest expense increased by \$123,000 or 10.9%, to \$1.3 million for the quarter ended September 30, 2009 compared to the prior year's quarter primarily due to a \$61,000 increase in occupancy and equipment expenses relating to the October 2008 opening of the Schererville branch office, a \$54,000 increase in staffing expenses due in part to additional staff to operate the new Schererville office as well as increased benefit expense related to the Company's defined benefit plan. Federal deposit insurance premiums also increased by \$40,000 due to industry wide rate increases. Partially offsetting these increases, were a \$32,000 decline in legal and professional fees as well as a \$15,000 decline in advertising expenses. The Company continues its efforts to lease a portion of the new branch building that it will not utilize to offset some of the aforementioned occupancy costs.

Income Taxes - The Company recorded an income tax benefit of \$793,000 for the quarter ended September 30, 2009, as compared to a benefit of \$72,000 for the quarter ended September 30, 2008. These tax benefits were generated by the net losses recorded during both periods.

Analysis of Net Interest Income. Net interest income represents the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

The following table presents, for the periods indicated, the total dollar amounts of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. All average balances were calculated using average daily balances and include non-accruing loans.

(Dollars in thousands)

<u>Yield Analysis</u>	<u>For The Three Month Period</u> September 30, 2009			<u>For The Three Month Period</u> September 30, 2008		
	<u>Outstanding Average Balance</u>	<u>Interest Income Expense</u>	<u>Yield/ Cost</u>	<u>Outstanding Average Balance</u>	<u>Interest Income Expense</u>	<u>Yield/ Cost</u>
Assets:						
Loans receivable	\$143,022	\$2,006	5.61%	\$147,994	\$2,265	6.12%
Mortgage-backed securities	5,169	51	3.94	1,913	23	4.80
Investment securities	470	6	5.46	684	9	5.58
Interest-bearing deposits	14,496	2	0.05	2,509	12	1.82
FHLB stock	1,965	13	2.56	1,965	30	5.98
Total interest-earning assets	<u>165,122</u>	<u>2,078</u>	5.03	<u>155,065</u>	<u>2,339</u>	6.03
Non interest-earning assets	<u>22,769</u>			<u>23,154</u>		
Total assets	<u>187,891</u>			<u>178,219</u>		
Liabilities and Stockholder's Equity:						
Interest-Bearing Liabilities						
Passbook accounts	17,301	13	0.30	17,183	45	1.03
Demand accounts	33,971	73	0.85	29,119	123	1.68
Certificate accounts	88,257	640	2.88	79,142	746	3.74
Total deposits	<u>139,529</u>	<u>726</u>	2.07	<u>125,444</u>	<u>914</u>	2.89
Borrowings	<u>27,987</u>	<u>356</u>	5.05	<u>34,890</u>	<u>436</u>	4.96
Total interest-bearing liabilities	<u>167,516</u>	<u>1,082</u>	2.56	<u>160,334</u>	<u>1,350</u>	3.34
Non interest liabilities	<u>4,683</u>			<u>4,836</u>		
Total liabilities	<u>172,199</u>			<u>165,170</u>		
Stockholder's equity	<u>15,692</u>			<u>13,049</u>		
Total liabilities and stockholder's equity	<u>\$187,891</u>			<u>\$178,219</u>		
Net interest income / net interest rate spread		<u>\$996</u>	<u>2.47%</u>		<u>\$989</u>	<u>2.69%</u>

Results for the Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

General – The Company recorded a net loss totaling \$1.7 million for the nine months ended September 30, 2009, as compared to a net loss totaling \$200,443 for the nine months ended September 30, 2008. The loss per share totaled (\$1.71) for the nine months ended September 30, 2009, as compared to a loss of (\$0.20) per share for the nine months ended September 30, 2008. The current period loss is attributable to a \$2.4 million increase in the provision for loan losses and a \$96,000 decrease in non-interest income, and a \$505,000 increase in non-interest expenses offset in part by an increased tax benefit of \$971,000.

Interest income - Total interest income decreased by \$837,000, or 11.6%, to \$6.4 million for the nine months ended September 30, 2009, as compared with the prior year's period. This decrease was the result of a 94 basis point decline in the average yield on interest-earning assets to 5.21% for the nine months ended September 30, 2009, as compared to 6.15% for the nine months ended September 30, 2008, offset in part by a \$6.8 million increase in the average balance of interest-earning assets to \$162.8 million for the nine months ended September 30, 2009, as compared to \$156.0 million for the nine months ended September 30, 2008.

Interest income on loans receivable decreased \$821,000, or 11.8%, to \$6.2 million for the nine months ended September 30, 2009, as compared to the prior year's nine month period. The average balance for loans receivable for the nine months ended September 30, 2009 was \$145.4 million with an average yield of 5.65% compared to an average balance of \$149.2 million with an average yield of 6.24% for the same period in 2008. The decrease in the average yield on loans receivable reflects both the impact of lower yielding new originations and purchases in the current rate environment, lower interest rates on adjustable rate loans, as well as increasing levels of non performing loans, whereby no interest is earned. The decrease in the average balance was due to lower volumes of new originations and purchases held for the portfolio offset by higher principal repayments.

Interest income on mortgage-backed securities increased \$87,000, to \$136,000 for the nine months ended September 30, 2009 from \$49,000 for the nine months ended September 30, 2008. The average balance of mortgage-backed securities for the nine months ended September 30, 2009 was \$4.4 million with an average yield of 4.12% compared to an average balance of \$1.4 million with an average yield of 4.62% for the same period in 2008. The average balance increased due to purchases between the periods. Interest income on investment securities decreased \$30,000, to \$20,000 for the nine months ended September 30, 2009 from \$50,000 for the nine months ended September 30, 2008. The average balance of investment securities for the nine months ended September 30, 2009 was \$497,000 with an average yield of 5.41% compared to an average balance of \$1.3 million with an average yield of 5.29% for the same period in 2008. The decline in the average balance of investment securities outstanding was due to maturities and calls within the portfolio. Interest income on interest bearing deposits decreased by \$32,000, to \$4,000 for the nine months ended September 30, 2009, as compared to the prior year's period. The decrease in interest income was the result of an historical decline in overnight rates resulting in an average yield of 0.05% for the nine months ended September 30, 2009 compared to 2.19% for the nine months ended September 30, 2008. The average balance for interest bearing deposits for the nine months ended September 30, 2009 was \$10.5 million compared to an average balance of \$2.2 million for the same period in 2008. The increase in the average balance was due in part to the aforementioned

decrease in net loans receivable as well as the proceeds received from the preferred stock issuance. Dividend income on FHLB of Indianapolis stock decreased by \$41,000 to \$33,000 for the nine months ended September 30, 2009 from \$74,000 for the nine months ended September 30, 2008. The decrease in dividend income was the result of a decrease in the average yield to 2.27% for the nine months ended September 30, 2009, from 5.18% for the nine months ended September 30, 2008.

Interest Expense - Total interest expense decreased by \$905,000, or 20.9%, to \$3.4 million for the nine months ended September 30, 2009, as compared to the prior year's period. The cost of interest-bearing liabilities decreased 81 basis points to 2.76% for the nine months ended September 30, 2009, as compared to 3.57% for the nine months ended September 30, 2008, due primarily to declining short-term interest rates, which enabled management to continue to lower the rate on maturing certificates of deposit and still remain competitive. Partially offsetting this decrease was a \$3.7 million increase in the average balance of interest-bearing liabilities to \$165.3 million for the nine months ended September 30, 2009, as compared to \$161.6 million for the nine months ended September 30, 2008. The increase in the average balance of interest-bearing liabilities was due to an increase in the average balance of deposits outstanding of \$12.8 million, offset by a \$9.1 million reduction in the average balance of borrowings outstanding.

Interest expense on deposits decreased by \$587,000, or 20.3%, to \$2.3 million for the nine months ended September 30, 2009 from \$2.9 million for the nine months ended September 30, 2008. The average balance for deposits for the nine months ended September 30, 2009 was \$135.5 million with an average rate of 2.27% compared to an average balance of \$122.8 million with an average rate of 3.14% for the same period in 2008. The decrease in the average cost of deposits was primarily impacted by a 101 basis point decrease on certificates of deposits to an average rate of 3.11% during the 2009 period, as compared to an average rate of 4.12% for nine month period ended September 30, 2008. During 2009, the majority of certificates of deposits that were scheduled to reprice did so at lower short-term rates.

Interest expense on borrowings decreased by \$318,000 to \$1.1 million for the nine months ended September 30, 2009 from \$1.4 million for the nine months ended September 30, 2008. This decrease was the result of \$9.1 million decrease in the average balance of borrowings to \$29.8 million for the nine months ended September 30, 2009, from \$38.9 million for the nine months ended September 30, 2008, offset in part by a 7 basis point increase in the average cost of borrowed funds to 5.00% for the nine months ended September 30, 2009 from 4.93% for the comparable 2008 period. Interest expense on FHLB of Indianapolis advances decreased by \$293,000 to \$847,000 for the nine months ended September 30, 2009, as compared with the prior year's period as a result of an \$8.4 million decrease in the average balance outstanding to \$24.8 million for the nine months ended September 30, 2009, from \$33.2 million for the nine months ended September 30, 2008 and a decline of 2 basis points in the average cost of these advances to 4.57% compared to 4.59% for the prior year's period. Interest expense on other borrowings decreased by \$25,000, totaling \$268,000 for the nine months ended September 30, 2009, as compared to the prior year's period.

Net Interest Income - As a result of the changes in interest income and interest expense, net interest income increased \$68,000, or 2.4%, to \$2.9 million for the nine months ended September 30, 2009, as compared to the prior year's period. The net interest rate spread decreased to 2.45% during the current nine months, as compared to 2.58% for the nine months ended September 30, 2008. The net interest margin decreased to 2.41% during the current nine months, as compared to 2.46% for the nine months ended September 30, 2008. Average net earning assets increased between the periods by \$3.1 million.

Provision for Loan Losses - The Company recorded a provision for loan losses of \$2.4 million during the current nine month period, as compared to \$465,000 during the prior year's period. The increase was primarily due to an increase in loan charge-offs and an increase in nonperforming real estate and commercial loans as well as the continuing decline in real estate values. During the nine months ended September 30, 2009, the Bank incurred charge-offs totaling \$894,000 relating to a \$339,000 commercial loan, \$391,000 in five single family residential loans, \$147,000 in two multi family loans, and \$17,000 in five credit card receivables, offset by recoveries totaling \$93,000 primarily related to a \$90,000 recovery on a secured consumer loan partially charged-off in September 2007.

Non-Interest Income - Non-interest income decreased by \$96,000 to \$512,000 for the nine months ended September 30, 2009 compared to \$608,000 in the prior year's period. The decrease was the result of a \$316,000 increase in losses incurred from sales and write-downs of real estate owned based upon further declines in the market value of several of these properties. The current period's decline was also impacted by a \$150,000 decrease in other fee income primarily related to the Company's accounts receivable program, which experienced a reduction in average volume. The Company also experienced declines of \$23,000 on the sale of other assets, \$20,000 in rental income from leasing excess office space, \$19,000 in deposit fee income. Partially offsetting these declines was a \$292,000 reduction in losses from real estate held for development as those losses totaled \$26,000 during the current nine month period compared to \$318,000 recorded during the prior year's nine month period, as well as an \$84,000 increase on gains from the sale of loans and a \$37,000 increase in loan fee income.

Non-Interest Expense - Non-interest expense increased by \$505,000, or 14.8%, to \$3.9 million for the nine months ended September 30, 2009 compared to \$3.4 million in the prior year's period due to a \$191,000 increase in occupancy and equipment expenses relating to the October 2008 opening of the Schererville branch office, a \$173,000 increase in federal deposit insurance premiums resulting from both an increase in regular premium rates as well as the special assessment incurred during the second quarter of 2009, and a \$78,000 increase in other operating expenses primarily due to increases in real estate owned expenses.

On January 1, 2009, the FDIC substantially raised insurance premiums on insured depository institutions. Additionally, on May 22, 2009, the FDIC issued a final rule imposing a 5 basis point special assessment on each insured institution's assets minus Tier 1 capital as of June 30, 2009. Based upon this FDIC rule, the Company accrued \$84,000 for this special assessment as of June 30, 2009 and paid the assessment to the FDIC on September 30, 2009. On September 29, 2009, the FDIC Board proposed a Deposit Insurance Fund restoration plan that requires banks to prepay, on Dec. 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Under the plan, banks would be assessed through 2010 according to the risk-based premium schedule adopted earlier this year. However, beginning January 1, 2011, the base rate would increase by 3 basis points. In view of today's adverse economic conditions, there can be no assurance that the FDIC will not further raise its premium rate or require additional special assessments. In addition, in view of our recent adverse operating results, there can be no assurance that we will not receive a ratings downgrade triggering an increase in our premium rate.

Income Taxes - The Company recorded an income tax benefit of \$1.2 million for the nine months ended September 30, 2009, as compared to a benefit of \$195,000 for the nine months ended September 30, 2008. These tax benefits were generated by the net loss recorded during both periods.

Analysis of Net Interest Income. Net interest income represents the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

The following table presents, for the periods indicated, the total dollar amounts of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made. All average balances were calculated using average daily balances and include non-accruing loans.

(Dollars in thousands)

<u>Yield Analysis</u>	<u>For The Nine Month Period</u> September 30, 2009			<u>For The Nine Month Period</u> September 30, 2008		
	<u>Outstanding Average Balance</u>	<u>Interest Income Expense</u>	<u>Yield/ Cost</u>	<u>Outstanding Average Balance</u>	<u>Interest Income Expense</u>	<u>Yield/ Cost</u>
Assets:						
Loans receivable	\$145,426	\$6,163	5.65%	\$149,195	\$6,984	6.24%
Mortgage-backed securities	4,408	136	4.12	1,419	49	4.62
Investment securities	497	20	5.41	1,272	50	5.29
Interest-bearing deposits	10,477	4	0.05	2,187	36	2.19
FHLB stock	1,965	33	2.27	1,915	74	5.18
Total interest-earning assets	<u>162,773</u>	<u>6,356</u>	5.21	<u>155,988</u>	<u>7,193</u>	6.15
Non interest-earning assets	<u>22,790</u>			<u>23,067</u>		
Total assets	<u>185,563</u>			<u>179,055</u>		
Liabilities and Stockholder's Equity:						
Interest-Bearing Liabilities						
Passbook accounts	17,256	61	0.47	17,320	131	1.01
Demand accounts	31,890	227	0.95	26,130	311	1.59
Certificate accounts	86,390	2,012	3.11	79,305	2,445	4.12
Total deposits	<u>135,536</u>	<u>2,300</u>	2.27	<u>122,755</u>	<u>2,887</u>	3.14
Borrowings	29,793	1,115	5.00	38,853	1,433	4.93
Total interest-bearing liabilities	<u>165,329</u>	<u>3,415</u>	2.76	<u>161,608</u>	<u>4,320</u>	3.57
Non interest liabilities	<u>4,408</u>			<u>4,180</u>		
Total liabilities	<u>169,737</u>			<u>165,788</u>		
Stockholder's equity	<u>15,826</u>			<u>13,267</u>		
Total liabilities and stockholder's equity	<u>\$185,563</u>			<u>\$179,055</u>		
Net interest income / net interest rate spread		<u>\$2,941</u>	<u>2.45%</u>		<u>\$2,873</u>	<u>2.58%</u>

The following table sets forth an analysis of the allowance for loan losses. The current 2009 period represents activity for the nine months ended September 30, 2009 as compared to prior 2008 year, which represents activity for the twelve month period.

(Dollars in thousands)

	2009 <u>Nine</u> <u>Months</u>	2008 <u>Twelve</u> <u>Months</u>
Balance at beginning of period:.....	<u>\$ 855</u>	<u>\$ 738</u>
Charge-offs:		
One- to four-family.....	391	224
Multi-family	147	—
Non-residential	—	104
Construction	—	44
Land.....	—	—
Consumer.....	17	53
Commercial business.....	<u>339</u>	<u>—</u>
Total charge offs.....	<u>894</u>	<u>425</u>
Recoveries:		
One- to four- family.....	—	—
Multi-family	—	—
Non-residential	—	—
Consumer.....	91	7
Commercial business.....	<u>2</u>	<u>—</u>
Total recoveries	<u>93</u>	<u>7</u>
Net charge-offs	(801)	(418)
Additions charged to operations	<u>2,380</u>	<u>535</u>
Balance at end of period	<u>\$ 2,434</u>	<u>\$ 855</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	<u>0.55%</u>	<u>0.28%</u>
Ratio of net charge-offs during the period to average non- performing assets.....	<u>9.80%</u>	<u>8.63%</u>

Capital Standards

As a federally chartered savings bank, the Bank's deposits are insured up to the applicable limits by the Federal Deposits Insurance Corporation ("FDIC"). The Bank is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis, which is one of the twelve regional banks comprising the FHLB system. The Bank is regulated by the Office of Thrift Supervision ("OTS") and the FDIC. The Bank is further regulated by the Board of Governors of the Federal Reserve System as to reserves required to be maintained against deposits and certain other matters. Such regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OTS, the FDIC or Congress could have a material impact on the Company and its operations.

Savings associations must meet three capital requirements: core and tangible capital to total assets ratios as well as a regulatory capital to total risk-weighted assets ratio.

Core Capital Requirement

The core capital requirement, or the required "leverage limit", currently requires a savings institution to maintain core capital of not less than 4% of adjusted total assets. For the Bank, core capital generally includes common stockholders' equity (including retained earnings), and minority interests in the equity accounts of fully consolidated subsidiaries, less intangibles other than certain servicing rights. Investments in and advances to subsidiaries engaged in activities not permissible for national banks are also required to be deducted in computing core total capital.

Tangible Capital Requirement

Under OTS regulation, savings institutions are required to meet a tangible capital requirement of 1.5% of adjusted total assets. Tangible capital is defined as core capital less any intangible assets, plus purchased mortgage servicing rights in an amount includable in core capital.

Risk-Based Capital Requirement

The risk-based capital requirement provides that savings institutions maintain total capital equal to not less than 8% of total risk-weighted assets. For purposes of the risk-based capital computation, total capital is defined as core capital, as defined above, plus supplementary capital, primarily general loan loss reserves (limited to a maximum of 1.25% of total risk-weighted assets.) Supplementary capital included in total capital cannot exceed 100% of core capital.

At September 30, 2009, the Bank was in compliance with all of its capital requirements as follows:

	<u>September 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>Percent of Assets</u>	<u>Amount</u>	<u>Percent of Assets</u>
Stockholders' equity of the Bank	\$ 16,439,003	8.84 %	15,151,474	8.53 %
Tangible capital	15,412,777	8.33 %	15,096,799	8.50 %
Tangible capital requirement	2,775,162	1.50	2,663,525	1.50
Excess	\$ <u>12,637,615</u>	<u>6.83 %</u>	<u>12,433,274</u>	<u>7.00 %</u>
Core capital	15,412,777	8.33 %	15,096,799	8.50 %
Core capital requirement	7,400,431	4.00	7,102,733	4.00
Excess	\$ <u>8,012,346</u>	<u>4.33 %</u>	<u>7,994,066</u>	<u>4.50 %</u>
Core and supplementary capital	16,259,675	13.38 %	15,952,129	12.92 %
Risk-based capital requirement	9,725,206	8.00	9,873,771	8.00
Excess	\$ <u>6,534,469</u>	<u>5.38 %</u>	<u>6,078,358</u>	<u>4.92 %</u>
Total Bank assets	\$ 186,010,838		177,669,718	
Adjusted total Bank assets	185,010,774		177,568,324	
Total risk-weighted assets	121,565,074		123,422,136	

A reconciliation of consolidated stockholders' equity of the Bank for financial reporting purposes to capital available to the Bank to meet regulatory capital requirements is as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Stockholders' equity of the Bank	\$ 16,439,003	\$ 15,151,474
Regulatory capital adjustment		
For mortgage servicing rights	(3,826)	(408)
For deferred tax assets	(946,649)	-
For available for sale securities	(75,751)	(54,267)
Tangible and core capital	\$ 15,412,777	\$ 15,096,799
Allowable general loan loss reserves	<u>846,898</u>	<u>855,330</u>
Core and supplementary capital	\$ <u>16,259,675</u>	\$ <u>15,952,129</u>

Non-Performing Assets

The following table sets forth the amounts and categories of non-performing assets, on the date indicated, in the Company's portfolio. Loans are reviewed monthly and any loan whose collection is doubtful is placed on non-accrual status. Loans are placed on non-accrual status when principal and interest is 90 days or more past due, unless, in the judgment of management, the loan is well collateralized and in the process of collection. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collection of the loan.

	September 30,		December 31,
	2009		2008
	(Dollars in thousands)		(Dollars in thousands)
Non-accruing loans:			
One to four family	2,563		3,212
Multi-family	---		379
Non-residential	1,260		---
Land	954		931
Commercial business	---		10
Construction	1,973		579
Consumer (includes home equity)	83		228
Subtotal	6,833		5,339
Foreclosed assets:			
One to four family	910		494
Multi-family	473		---
Non-residential	203		235
Land	207		305
Construction one to four family	215		288
Consumer	---		---
Subtotal	2,008		1,322
Other assets:			
Accounts receivable financing	109		109
Subtotal	109		109
Total non-performing assets	8,950		6,770
Non-performing assets to total assets	4.77%		3.76%

Non-performing loans totaled \$6.8 million, or 4.76% of total loans receivable at September 30, 2009, compared to \$5.3 million, or 3.49% of total loans receivable at December 31, 2008. The increase in non-performing loans during the current period was primarily due to the addition of two loans totaling \$2.4 million. The first consists of a \$1.2 million participation interest in a real estate development loan for the construction of nine residential condominium units located in Chicago, Illinois. The units are substantially completed however there have been no sales which has resulted in the borrower experiencing cash flow difficulties. During the third quarter of 2009, management filed a lawsuit against the lead lender and has retained legal counsel to actively pursue potential material violations of the participation agreement and the underlying loan documentation by the lead lender. The other loan was a \$1.2 million real estate participation loan secured by a water park hotel located in Dundee, Michigan. The borrower is also experiencing cash flow difficulties due to current economic conditions in Michigan resulting in the inability to maintain debt service coverage. The Company, in conjunction with other loan participants, is attempting to restructure the loan agreement.

Included in non-performing loans at September 30, 2009, were twenty-two one-to four family mortgage loans totaling \$2.6 million, of which eight loans totaling \$851,000 are located out of the Bank's general lending area, the aforementioned \$1.2 million participation in a condominium construction loan and the \$1.2 million real estate participation loan secured by a water park hotel, four loans secured by undeveloped lots totaling \$954,000, four one-to four family construction loans totaling \$808,000, two second mortgage line of credit loans totaling \$58,000, one non residential loan totaling \$72,000, and four credit card receivables totaling \$25,000. Included in the various categories above are eight loans to one borrower totaling \$2.4 million secured by developed building lots, along with completed and partially completed four unit town home buildings located in Merrillville, Indiana.

The ratio of allowance for loan losses to non-performing loans was 35.6% at September 30, 2009, compared to 16.0% at December 31, 2008. Management has considered the Company's non-performing loans in establishing its allowance for loan losses.

At September 30, 2009, the Bank had net real estate owned properties totaling \$2.0 million, which was previously discussed. The Bank expects that real estate owned may increase during the remainder of 2009 and 2010 based on the increase in non-accrual loans during the current nine month period. During the period ended September 30, 2009, the Company sold real estate owned realizing gross proceeds of \$470,000 while recording losses on sales of \$106,000 and losses due to valuation write downs totaling \$297,000. Real estate owned and other repossessed assets are valued at the lower of cost or management's estimate of net realizable value.

Also included in non-performing assets set forth in the table above, as of September 30, 2009, was one account receivable totaling \$109,000 related to the Company's purchased accounts receivable program. The merchant to whom the Company advanced funds is no longer in business and as such, the Company has filed a claim under the program's loss mitigation insurance. At September 30, 2009, the Company has fully reserved for \$55,000 deductible amount.

Not included in the table above are seven loans secured by single family residential properties totaling \$1.4 million and one consumer loan totaling \$38,000, all of which the Company have restructured and classified as substandard. These modifications reflect the willingness of the Company to work with borrowers who are experiencing difficulties during the current economic crisis.

In view of today's turbulent economy, there can be no assurance that we will not experience further increases in our non performing assets or that the value of our current non performing assets will not further decline.